

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where issuer is located):

Provide nine-digit CUSIP* numbers if available, to which the information relates:

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located):

**THE CITY OF SAN DIEGO, CALIFORNIA (OBLIGOR, PURSUANT TO CERTIFICATES OF PARTICIPATION);
PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO; CITY OF SAN DIEGO/MTDB
AUTHORITY; AND CONVENTION CENTER EXPANSION FINANCING AUTHORITY (STATE: CALIFORNIA)**

Other Obligated Person's Name (if any):

**THE CITY OF SAN DIEGO, CALIFORNIA – IN EACH CASE, THE ULTIMATE CREDIT BEING THE GENERAL FUND
OF THE CITY OF SAN DIEGO**

Provide six-digit CUSIP* number(s), if available, of Issuer: **797299, 797260, 797448, 797299, and 79727L**

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

☐ Electronic (Number of pages attached)

☒ Paper (Number of pages attached): 23

If information is also available on the Internet, give URL: _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. ☐ Annual Financial Information and Operating Data pursuant to Rule 15c2-12

(Financial information and operating data should not be filed with the MSRB.)

B. ☐ Audited Financial Statements or CAFR pursuant to Rule 15c2-12

C. ☐ Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. ☐ Notice of Failure to Provide Annual Financial Information as Required

E. ☒ Other Secondary Market Information (Specify): **Voluntary Report of Information relating to the obligations of the City with respect to the San Diego City Employees Retirement System and certain errors to the Comprehensive Annual Financial Report of the City of San Diego for the fiscal year ended June 30, 2002.**

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name: **PATRICIA T. FRAZIER**

Title: **DEPUTY CITY MANAGER**

Employer: **CITY OF SAN DIEGO**

Address: **202 C STREET, MAIL STATION 9B, SAN DIEGO, CA 92101**

Obligor Contact, if any:

Name: **PATRICIA T. FRAZIER**

Title: **DEPUTY CITY MANAGER**

Employer: **CITY OF SAN DIEGO**

Address: **202 C STREET, MAIL STATION 9B, SAN DIEGO, CA 92101**

Investor and Credit Relations Contact:

Name: **LAKSHMI KOMMI**

Title: **DEPUTY DIRECTOR, FINANCING SERVICES**

Telephone: **(619) 236-6928**

Fax: **(619) 235-5835**

Press Contact:

Name: **CARL NETTLETON**

Title: **DIRECTOR OF PUBLIC AND MEDIA AFFAIRS**

Telephone: **(619) 236-6851**

Fax: **(619) 235-5266**

**VOLUNTARY REPORT OF INFORMATION
DATED JANUARY 27, 2004**

RELATING TO

\$25,070,000

**Public Facilities Financing Authority
of the City of San Diego
Lease Revenue Bonds, Series 2002B
(Fire and Life Safety Facilities Project)
(CUSIP Number 797299)**

\$17,425,000

**City of San Diego
2003 Certificates of Participation
(1993 Balboa Park/Mission Bay Park Refunding)
Evidencing Undivided Proportionate Interest in Lease
Payments to be Made by the City of San Diego
Pursuant to a Lease with the San Diego Facilities and
Equipment Leasing Corporation
(CUSIP Number 797260)**

\$205,000,000

**Convention Center Expansion Financing Authority
Lease Revenue Bonds, Series 1998A
(City of San Diego, California, as Lessee)
(CUSIP Number 79727L)**

\$11,720,000

**City of San Diego, California
Refunding Certificates of Participation
(Balboa Park and Mission Bay Park Capital
Improvements Program, Series 1991)
Series 1996B
(CUSIP Number 797260)**

\$15,255,000

**City of San Diego/MTDB Authority
2003 Lease Revenue Refunding Bonds
(San Diego Old Town Light
Rail Transit Extension Refunding)
(CUSIP Number 797448)**

\$169,685,000

**Public Facilities Financing Authority
of the City of San Diego
Lease Revenue Bonds, Series 2002 (Ballpark Project)
(CUSIP Number 797299)**

\$33,430,000

**City of San Diego, California
Certificates of Participation
(Balboa Park and Mission Bay Park Capital
Improvements Program)
Series 1996A
(CUSIP Number 797260)**

\$68,425,000

**Public Facilities Financing Authority
of the City of San Diego
Taxable Lease Revenue Bonds, Series 1996A
(San Diego Jack Murphy Stadium)
(CUSIP Number 797299)**

The City of San Diego, California (the “City”) is submitting this Voluntary Report of Information (this “Report”) to the Municipal Securities Rulemaking Board (“MSRB”) and the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”). See Exhibit A for the listing of NRMSIRs. The City is submitting this Report on behalf of itself and on behalf of the Public Facilities Financing Authority of the City of San Diego, the City of San Diego/MTDB Authority, and the Convention Center Expansion Financing Authority (the “Issuers”) for the above-mentioned issuances. The City may or may not from time to time voluntarily submit additional information. This submission does not constitute a commitment to provide information beyond the disclosure requirements of the Continuing Disclosure Agreements related to each of the above-mentioned issuances (collectively, the “Continuing Disclosure Agreements”).

This Report is dated as of January 27, 2004 (the “Dated Date”) and speaks only as of the Dated Date. Readers are cautioned not to assume that any information has been updated beyond the Dated Date unless this Report expressly states that it constitutes an update of a specific matter in a document. The City expressly disclaims any duty of the City or any of the other Issuers to provide an update of this Report or a further update of any document, or matter therein, specifically referenced.

The filing of this Report does not constitute or imply any representation (1) that any or all of the information provided is material to investors, (2) regarding any other financial, operating or other information about the City or any of the other Issuers, or the above stated issuances, (3) that no changes, circumstances or events have occurred which may have a bearing on the security for the above-mentioned issuances or an investor’s decision to buy, sell or hold the above-mentioned issuances.

Certain statements contained in this Report reflect not historical facts but forecasts and “forward-looking” statements. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements, are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Report.

Any statements regarding the above-mentioned issuances, other than a statement made by the City in an official release or subsequent notice or annual report, published in a financial newspaper of general circulation and/or filed with the MSRB or the NRMSIRs, are not authorized by the City or any of the other Issuers. Neither the City nor any of the other Issuers shall be responsible for the accuracy, completeness or fairness of any such unauthorized statement.

DATED: January 27, 2004

CITY OF SAN DIEGO

By: /s/ Patricia T. Frazier

Its: Deputy City Manager

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission.

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, NJ 08558
Email: Munis@Bloomberg.com
Phone: (609) 279-3225
FAX: (609) 279-5962

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, NY 10038
Email: NRMSIR@FTID.com
Phone: (212) 771-6999
FAX: (212) 771-7390

Standard & Poor's J. J. Kenny Repository

55 Water Street, 45th Floor
New York, NY 10041
Email: nrmsir_repository@sandp.com
Phone: (212) 438-4595
FAX: (212) 438-3975

DPC Data, Inc.

One Executive Drive
Fort Lee, NJ 07024
Email: nrmsir@dpcdata.com
Phone: (201) 346-0701
FAX: (201) 947-0107

\$25,070,000
Public Facilities Financing Authority
of the City of San Diego
Lease Revenue Bonds, Series 2002B
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Public Facilities Financing Authority
of the City of San Diego
Taxable Lease Revenue Bonds, Series 1996A
(San Diego Jack Murphy Stadium)
(CUSIP Number 797299)

VOLUNTARY REPORT OF INFORMATION

DATED JANUARY 27, 2004

This Voluntary Report of Information (this “Report”) is being provided by the City of San Diego (the “City”) on behalf of itself and on behalf of the Public Facilities Financing Authority of the City of San Diego, the City of San Diego/MTDB Authority, and the Convention Center Expansion Financing Authority (the “Issuers”) for the above stated issuances. This Report consists of two parts. First, Part I of this Report provides information regarding the obligations of the City’s general fund to make payments to the San Diego City Employees Retirement System (“SDCERS”). Part I supercedes all disclosure made by the City with respect to the general fund’s obligations to make payments to SDCERS pursuant to Securities and Exchange Commission Rule 15c2-12 or otherwise, including information under the heading “10. Pension Plan” contained in the Annual Report as of June 30, 2002. Second, Part II of this Report provides information regarding certain errors made in the Comprehensive Annual Financial Report of the City as of June 30, 2002.

PART I

PENSION PLAN

City Employees' Retirement System

General

All benefited City employees participate with the full-time employees of the Airport Authority (the "Airport Authority") and the San Diego Unified Port District (the "District") in the City Employees' Retirement System ("CERS"). CERS is a public employee retirement system that acts as a common investment and administrative agent for the City, the Airport Authority and the District and is governed by a board of trustees (the "Board"), the membership of which is composed as follows: three members are elected by the general members (who are active employees of the City other than police, fire and other safety members), one member is elected by active fire employees of the City, one member is elected by active police employees of the City, one member is elected by retirees who are members of CERS, three members are ex-officio members (who are a designee of the City Manager, a designee of the City Auditor, and the City Treasurer), and four members are appointed by the City Council. Through various City benefit plans, CERS provides retirement benefits to all general, safety (police and fire), and legislative members. The information set forth herein relates solely to the City's participation in CERS and not to the Airport Authority or the District.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service, and age. City employees are required to contribute a percentage of their annual salary to CERS. The obligation to make contributions to CERS is based on the San Diego City Charter and the San Diego Municipal Code and, to the extent that available CERS assets are less than vested benefits, is an obligation imposed by law upon the City.

According to the preliminary Annual Actuarial Valuation of CERS dated as of December 18, 2003 (the "Preliminary Valuation"), the funded ratio (valuation of assets available for benefits to total actuarial accrued liability) of the CERS fund as of June 30, 2003 was 67.2%, which is the lowest funded ratio as of the end of any of the fiscal years ended June 30, 1996 through 2003. According to the Preliminary Valuation, the CERS fund had an unfunded actuarial accrued liability (the "UAAL") of \$1.157 billion as of June 30, 2003, which represented a \$437 million increase in the UAAL over the previous actuarial calculation as of June 30, 2002. The UAAL is the difference between total actuarially accrued liabilities of \$3.533 billion and actuarially calculated assets allocated to funding of \$2.375 billion. The estimated portion of the UAAL attributable to employees payable from the general fund was approximately \$902 million as of June 30, 2003, which is calculated based on a 78% pro rata share attributable to the general fund and is derived from a three-year average of the general fund's portion of total employer contribution amounts for fiscal years 2000, 2001, and 2002. The increase in the UAAL as of June 30, 2003 resulted primarily from lower actual investment returns as compared to the 8% actuarially assumed rate of return on investments. The Preliminary Valuation has neither been finalized by the CERS actuary nor approved by the Board, and the final annual actuarial valuation of CERS for the year ended June 30, 2003 will not be completed until the first calendar

quarter of 2004. Accordingly, the results presented in the Preliminary Valuation are subject to change.

Currently, the UAAL is being amortized over a 30-year period, which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 2003, there were 18 years remaining in the amortization period. (The Board can change the amortization period at any time and from time to time.) However, while the UAAL is currently being amortized over a fixed 30-period ending June 30, 2021, for purposes of financial reporting by the City, a Net Pension Obligation ("NPO") has been calculated using a rolling forty-year period and not over the remaining portion of the fixed thirty-year period. See **"Part II — 2002 Financial Statement Errors"** in the third paragraph, Item 4.a. for a discussion regarding the amortization of the City's actuarially required contribution on the basis of a running forty-year amortization rather than a thirty-year fixed amortization beginning July 1, 1991.

Agreements with CERS

1996 Arrangement. Since July 1996, the City has been making annual contributions to CERS in accordance with a funding method which, under two successive arrangements with CERS (the "1996 Arrangement" and the "2002 Agreement"), permitted contributions to be made by the City to CERS at specified rates which were below the rates of more conventional pension plan funding methods (the "Corridor Method of Funding"). Under the 1996 Arrangement, the City's annual contribution rates in respect of employee retirement benefits were to be specified rates expressed as percentages of payroll, which were increased through the fiscal year ended June 30, 2006, after which time the City contributions were to be calculated at one of the conventional pension plan contribution rates, Projected Unit Credit ("PUC"). As a consequence, the difference between the amounts paid and the amounts which would have been paid at the actuarially determined rate was approximately \$80.2 million (derived by calculating actual payroll at full actuarial rates and subtracting the amount actually paid to CERS) through June 30, 2003. The additional amount which CERS assets could have earned during such period from such difference is estimated to be approximately \$18.1 million. See **"Part II — 2002 Financial Statement Errors"** in the third paragraph, Item 4.b. for information regarding a reserve against which the differences between the amounts paid and the amounts which would have been paid was charged, which CERS had maintained, and which reserve was eliminated without any increase or decrease in CERS actuarial assets during the year ended June 30, 2003.

The 1996 Arrangement also provided that in the event the "funded ratio" of CERS fell below 82.3% (the "Threshold Ratio") the City-paid rate was to be increased on July 1 of the year following the date of the report of the actuarial evaluation in which the funded ratio dropped below the Threshold Ratio (the "Shortfall Amount"), and the increase was to be in an amount determined by the actuary necessary to restore a funded ratio no more than the level that is 82.3%. There were differences of views as to the nature and timing of the City's duties in the event the funded ratio fell below the Threshold Ratio. It is the view of the City that if the funded ratio dropped below the Threshold Ratio of 82.3%, under the 1996 Agreement, the City's duty was to increase the amount of annual contribution to an amount equal to the actuarially determined PUC contribution rate, but that there was no duty to directly fund any or all of the Shortfall Amount over any particular period. Some Board members and others thought that there

was a duty to fund up the Shortfall Amount over one or small number of annual periods without regard to actuarially determined contribution rates.

Between the fiscal years ended June 30, 1997 and 2003, a number of events occurred which impacted the UAAL: Investment results of CERS below the actuarially assumed rate of 8% per annum occurred as a consequence of declines in the securities market; the City, like other local agencies in California, in settlement of litigation (the “Corbett Settlement”)* seeking to calculate compensation for benefits over a greater amount than just direct pay, agreed to increase benefits which in turn increased actuarially determined liabilities; demographic changes; the City’s contributions to CERS of approximately \$80.2 million less than the City would have contributed if it had contributed at the actuarially determined rates as of June 30, 2003 (utilizing a 30-year fixed amortization period ending June 30, 2021); increases in CERS reserves, as well as other events to a lesser degree. During the same period, the funded ratio declined from 93.3% to 67.2%.

2002 Agreement. In the Spring of 2002, the City commenced negotiations with CERS regarding modifications to the 1996 Arrangement which culminated in approval by the City Council on November 18, 2002, and the Board on November 15, 2002 of an agreement between the City and CERS (the “2002 Agreement”). The 2002 Agreement amended the 1996 Arrangement regarding annual City Corridor contributions and made more specific the contributions to be made by the City if the funding ratio of CERS fell below the Threshold Ratio, as it first did as of the year ended June 30, 2002. (Beginning July 1, 2003, however, the City began making contributions for Non-Governmental Funds at the actuarially determined rates in addition to making specific contributions under the 2002 Agreement.)

Under the 2002 Agreement, with respect to employer contribution rates for the remaining years of the 1996 Arrangement (through the year ending June 30, 2007), the rates for each of the fiscal years ended June 30, 2004 and thereafter were higher percentages of payroll than were contemplated by the 1996 Arrangement and provides for “full PUC contribution rates,” to be paid for the year ending June 30, 2009, subject to the Board not changing actuarial assumptions used to determine contributions as of June 30, 2001. The 2002 Agreement also provides that if the City increases retirement benefits to employees at any time, the City will pay, in addition to the contractual rate, the full actuarially determined rate occasioned by such an increase commencing July 1 of the fiscal year following the benefits increase (and this is being done for the year ended June 30, 2004, for increased benefits approved by the City during the year ended June 30, 2003).

With respect to payments by the City on account of the existence of a Shortfall Amount, the 2002 Agreement provides that if the funded ratio falls below the Threshold Ratio, the City’s annual contribution rate shall be incrementally, ratably and annually increased to a percentage of

* With regard to retired employees covered by the Corbett Settlement (approximately 4,000 in number), the settlement provided for a flat increase of 7% in benefits, payable from net earnings and gains in CERS, after deducting amounts for expenses, certain benefits and certain reserves (the “Corbett Contingency”). The last Corbett Contingency was paid in November 2001. To the extent not paid by CERS, the unpaid amount is carried forward until there are available net earnings, but no interest is accrued thereon. The Corbett Contingency is not reflected in the UAAL or the City’s contractually or actuarially determined contribution rates. As of June 30, 2003, the cumulative unpaid Corbett Contingency was approximately \$10.8 million.

the actuarially determined rate such that the City will pay, for the year ending June 30, 2009 (the “Catch Up Period”), a rate equal to the actuarially determined rate using actuarial assumptions in effect on June 30, 2001. (The 2002 Agreement does not require any payment for any Shortfall Amount as such). The increased funding rate commenced during the Catch Up Period on July 1, 2003. Once operative, the duty of the City to make incremental contributions continues as described above, even though the funding ratio later improves to at or above the Threshold Ratio.

According to the 2002 Agreement, the City’s obligations with respect to base rate contributions and incremental contributions by virtue of the funded ratio falling below the Threshold Ratio terminate in full on June 30, 2009. Thereafter, the Board is to determine the City’s contribution rates, with the advice of its actuary, for the fiscal year beginning July 1, 2009 and thereafter, without regard to the contribution provisions of the 2002 Agreement or the 1996 Arrangement. Such determination is to be made taking into account any changes in actuarial assumption that may be recommended by the CERS actuary and approved by its governing body. In addition, the City and the Board agree that the Board will take all necessary steps and appropriate actions to “rapidly” bring the City’s contribution to CERS to the contribution rates determined by the entry age normal funding method and the City is to use its best efforts to contribute, beginning July 1, 2011, to CERS utilizing such method, which the City and CERS believe will produce less volatility in contributions than the PUC method. Should the City fail to meet any of its obligations under the 2002 Agreement, it is to immediately contribute to CERS, utilizing the PUC method.

At the time it approved the 2002 Agreement on November 15, 2002, the Board of CERS was provided with an opinion of its fiduciary counsel, reciting the facts and circumstances surrounding the 1996 Arrangement and leading up to the 2002 Agreement and describing the negotiations leading to the 2002 Agreement. The fiduciary counsel opinion concluded that, under the circumstances described in the opinion, it was reasonable for the Board to have decided that the 2002 Agreement was the best way to achieve long-term financial integrity and soundness of CERS, that the Board had diligently examined the alternatives presented to the City, that the Board had obtained information from outside experts, that the Board provided a full and reasonable consideration of the facts and issues before approving the 2002 Agreement, and, therefore, in the opinion of such counsel, it was reasonable for the Board to have entered into the 2002 Agreement in the exercise of its fiduciary responsibilities. This opinion took into account statements of the CERS actuary indicating that from an actuarial viewpoint, maintaining the City’s duties regarding any Shortfall Amount as provided for in the 1996 Arrangement and not providing transition periods to achieve actuarially determined rates would have provided for greater funding levels than the solution provided for in the 2002 Agreement, but if the Board decided in its judgment that a transition period was needed, the period chosen under the 2002 Agreement was reasonable.

Funding Status and Prospects.

Status.

The following table sets forth for the years ended June 30, 2003 and June 30, 2004, which is the City’s current fiscal year, total employer contributions made by the City, the general fund portion of the total employer contributions, and the difference between the actuarially

determined contribution rates (calculated on the basis of a thirty-year fixed amortization beginning July 1, 1991) and the actual contributions made.

<u>Year Ended</u>	<u>Total Contributions (In Millions)</u>	<u>General Fund Portion (In Millions)</u>	<u>Difference Between Actual Contributions and Actuarially Determined Contribution Rates (In Millions)⁽²⁾</u>
June 30, 2003	\$70.1 ⁽¹⁾	\$41.8	\$12.4
June 30, 2004 (Budgeted)	\$85.3	\$55.5	\$38.8

⁽¹⁾ Includes approximately \$10 million paid by the Non-Governmental Funds representing the previously calculated and unpaid NPO attributed to the Non-Governmental Funds for the years ended June 30, 1997 through 2002. See **“Part II — 2002 Financial Statements Errors”**, third paragraph, Item 4.d. for a discussion regarding certain errors to the NPO presented in the Comprehensive Annual Financial Report of the City for the fiscal year ended June 30, 2002.

⁽²⁾ The general fund’s share is estimated to be 95% of these amounts.

Further, the UAAL was \$1.157 billion as of June 30, 2003, of which the general fund’s share is estimated to be \$902 million which is calculated based on a 78% pro rata share attributable to the general fund and is derived from a 3-year average of the general fund’s portion of total employer contribution amounts for fiscal years 2000, 2001, and 2002. The UAAL as of June 30, 2003 will be used in calculating that portion of the City’s contributions for the fiscal year ending June 30, 2005 that relate to the amortized portion of the UAAL. The City has not contributed to CERS at actuarially determined rates since the year ended June 30, 1996, and the magnitude of difference between the agreed-upon rates under the 1996 Arrangement and the 2002 Agreement and estimated actuarially determined rates have increased significantly between June 30, 1997, and the current year. (For the year ended June 30, 2003, the City contributed to CERS for employees and former employees of non-governmental funds at the actuarially determined rate and expects to continue this in future years.)

Prospects. As discussed below in *“City and CERS Actions,”* the City is assessing the status of CERS and potential actions to address the circumstances described herein. Assuming the City takes no further action to enhance the funding status or decrease the UAAL, and assuming no newly created pension benefit increases or decreases between now and June 30, 2011, the City’s annual pension plan contribution obligations may continue to rise as set forth in the following table. The information contained in the table, and the related assumptions, are “forward-looking” in nature and are not to be construed as representations of fact or representations that in fact the various tabular information shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the CERS actuary taking into account a variety of assumptions, a number of which are specified below. Accordingly,

prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

<u>Year Ending June 30,</u>	<u>City Required Contributions^{(1)(2) (3)} (In Millions)</u>	<u>Funded Ratio⁽²⁾</u>	<u>UAAL⁽²⁾⁽³⁾ (In Billions)</u>
2004	\$85	66.1%	\$1.3
2005	\$115	65.3%	\$1.5
2006	\$138	64.8%	\$1.6
2007	\$173	64.6%	\$1.8
2008	\$220	64.8%	\$1.9
2009	\$268	65.4%	\$2.1
2010	\$288	65.9%	\$2.2
2011	\$306	66.2%	\$2.4

⁽¹⁾ 2002 Agreement contract rates through June 30, 2008, in respect of the general fund and, for such funds, actuarially determined rates thereafter, and, for non-governmental funds, including enterprise funds, actuarially determine rates throughout the period. Based on the estimate of the general fund's share of the UAAL as of June 30, 2003, the estimate of the general fund's share of City Required Contributions and UAAL is 78% which is calculated based on a 78% pro rata share attributable to the general fund and is derived from a three-year average of total contribution amounts between fiscal years 2000, 2001 and 2002.

⁽²⁾ The following assumptions were used in preparing the estimates:

- a. That the UAAL as of June 30, 2003 that was calculated to be \$1.157 billion in the Preliminary Valuation remains the same in the final annual actuarial valuation of CERS for the year ended June 30, 2003.
- b. The net investment return on the actuarial value of the CERS assets will be 8% per annum. (This is before giving effect to the "smoothing" of investment returns. For actuarial purposes, net realized and unrealized investments gains and losses are spread over a five year period. Accordingly, for these projections, the net investment returns will be negatively affected by the smoothing of investment losses for prior years which are being carried forward to the years ending June 30, 2004 through 2008.) This compares to historical net investment return on the actuarial value of CERS assets of (3.4%) for the year ended June 30, 2003; (1.2%) for the three years then ended; 5.5% for the five years then ended and 8.0% for the ten years then ended.
- c. Eligible employee payroll will rise an average of 4.25% in each year during the period from increases in wages and changes in the number of employees, or both. This compares with an average annual eligible employee payroll increase in each of the three years ended June 30, 2002 of 8%.
- d. Other employee demographic assumptions utilized in the actuarial report as of the year ended June 30, 2001 will be realized.

⁽³⁾ The UAAL is amortized over a period of 18 years as of June 30, 2003, declining by one year each subsequent year through June 30, 2006. Thereafter the amortization of the UAAL is calculated on a rolling 15-year basis, the import of which is to reduce the actuarially determined contribution rates below those which would be required by the remaining fixed amortization period, which is currently in effect through June 30, 2021, unless changed by the Board.

As can be seen from the foregoing table, the magnitude of the annual pension plan payments to be made by the City may be increasing in the near future and, without new City revenues, or a reduction in the pension benefits payable by the City or other actions to enhance the funding ratio or reduce the UAAL, these payments may become difficult for the City to fund without reductions in other services.

The foregoing estimates do not take into account employee contributions paid to CERS by the City pursuant to labor agreements (“Offsets”). Between the years ended June 30, 1998 and 2003, the Offsets increased from approximately \$20 million per year to approximately \$28.8 million per year. (The general fund’s shares of these were approximately 78% which is calculated based on a 78% pro rata share attributable to the general fund and is derived from a three-year average of total contribution amounts between fiscal years 2000, 2001 and 2002.) Nor do the estimates include any direct payments that the City may have to make in the future for post-retirement health care benefits. See **“Post Retirement HealthCare Benefits”** below. Further, these estimates do not take into account direct supplemental or contingent payments by CERS from CERS net earnings, including net realized gains from the sale of securities, or the direct or indirect deposits from such net earnings into reserves therefor by CERS, all of which diverts assets in CERS (“Basic Assets”) from availability for paying basic benefits and cause increases to UAAL.

The following table sets forth for the periods indicated the amounts paid by CERS from Basic Assets for supplemental or contingent payments or directly or indirectly into reserves therefor.

Supplemental and Contingent Payments
Years Ended June 30

<u>Category</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Totals</u>
Annual Supplement Benefit Payments ⁽¹⁾	\$3,206,315	\$3,319,544	\$3,427,519	\$3,540,643	\$3,627,495	\$3,725,490	\$ 20,847,006
Corbett Contingency Payments ⁽²⁾	-	-	-	23,630,603	5,265,570	1,453	28,897,626
Interest on "DROP" Reserves ⁽³⁾	381,478	1,194,608	2,333,565	4,207,312	6,424,652	9,218,282	23,759,897
Reserve for Supplemental COLA ⁽⁴⁾	-	37,800,000	2,722,012	2,643,834	2,848,815	-	46,014,661
Reserve for Employee Contribution Rate Increase ⁽⁵⁾	37,800,000	2,864,612 ⁽⁴⁾	3,093,281 ⁽⁴⁾	3,161,312 ⁽⁴⁾	3,239,204 ⁽⁴⁾	-	50,158,409
Reserve for Retiree Health Insurance ⁽⁶⁾	7,000,000	9,000,000	9,000,000	11,374,263	12,771,254	14,317,073	63,462,590
Totals	\$48,387,793	\$54,178,764	\$20,576,377	\$48,557,967	\$34,176,990	\$27,262,298	\$233,140,189

⁽¹⁾ Supplemental Benefit Payments to retirees generally equal to approximately \$30.00 times the number of years of employment (the "13th Check").

⁽²⁾ See discussion above under "*Agreements with CERS – 1996 Arrangement*" for information regarding the Corbett Settlement and the Corbett Contingency.

⁽³⁾ Interest paid on Deferred Retirement Option Plan reserves at the actuarially-assumed rate, whether or not earned.

⁽⁴⁾ These reflect a payment into a CERS reserve for Supplemental COLA (June 30, 1999) and interest on the balance of that amount in each of the subsequent years at the actuarial assumed rate, whether or not earned. Amounts in this account are used to pay supplemental cost of living adjustments to certain eligible retirees.

⁽⁵⁾ These reflect payments into a CERS reserve for employee pension plan payments (June 30, 1998) and interest on the balance of that amount in each of the subsequent years at the actuarial assumed rate, whether or not earned. Amounts in this account are used to pay Offsets.

⁽⁶⁾ See "*Post-Retirement Healthcare Benefits*" below. The amounts shown represent amounts contributed from net earnings of CERS to Basic Assets with equal equivalent amounts paid by the City into a CERS reserve for post-retirement healthcare benefits.

Pending Litigation Challenging the City's Funding Arrangements. As indicated below under "**Litigation Relating to the Retirement System**", the plaintiffs in pending litigation have alleged that neither the 1996 Arrangement nor the 2002 Agreement provided for permissible

levels of contributions to CERS required by the City Charter or the Municipal Code, each of which, it is alleged, would require larger contributions by the City historically and prospectively. An adverse decision in such litigation could adversely affect the general fund of the City in that it could result in the acceleration of the time when the City is required to make contributions at actuarially determined rates. See discussion under **“Litigation Relating to the Retirement System”** below.

City and Other Actions. The City is evaluating the fiscal status of CERS to determine the best course of action to improve funding status of CERS as regards pension benefits and availability of surplus funds in CERS to pay post-retirement healthcare premiums/benefit payments. To this end, the Mayor and the City Council have recently formed a pension reform committee to study, and provide recommendations to address, any unfunded liability problems of CERS. The committee will also review and consider the scope and depth of certain audits that have been commissioned by the CERS Board (including audits of the actuarial process and the investment operations) and provide input to the Board’s Audit Committee. The Committee will also examine how CERS has performed compared to other systems, including actions other systems have taken to address funding shortfalls. The group will also analyze the representative constitution of the Board and consider whether it should be restructured. It is expected to make an interim report to the City Council no later than February 2004.

Post-Retirement Healthcare Benefits

The City provides healthcare benefits/premiums to a variety of retired employees. Currently, the benefits are primarily for employees who were actively employed and retired on or after October 1980 and were otherwise entitled to retirement allowances. Most eligible employees are entitled to receive health insurance premiums up to a cap established in 2002 and based upon other healthcare programs/ premiums sponsored by the City, and adjusted annually based upon the projected increase for national health expenditures by the centers for Medicare and Medicaid Services. Employees who retired or terminated prior to October 1980 who were eligible for retirement allowances prior to that date are also eligible for healthcare benefits (currently approximately 750 employees) but their healthcare benefits are limited to a total of \$1,200 per year.

Since 1995, amounts have been transferred to CERS Basic Assets from net earnings on the Basic Assets in CERS, i.e., dividends, interest and net realized gains from the sale of securities, and an equivalent amount is paid by the City into a CERS reserve for post-retirement healthcare benefits (the “Insurance Benefit Account”). It is from this Account that post-retirement/healthcare premiums/benefits are paid. Accordingly, the statement in Note 13 of Notes to the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 regarding recognized expenditures refers to expenditures from the Insurance Benefit Account of CERS, not the general fund or any other resources of the City. There have been no payments by the City into the Insurance Benefit Account of CERS since the year ended June 30, 2003.

For the year ended June 30, 2003, approximately \$11,450,200 was charged against the Insurance Benefit Account for health benefits and insurance premiums payments, and the remaining balance in the account at that date was \$20,740,269. For the fiscal year ending June 30, 2004, the amount of \$13 million is projected for healthcare benefits. Neither CERS nor the

City tracks the departments or funds from which retired personnel receiving health benefits or premium payments, when in active service, were paid.

The City projects that if there are no further contributions to the Insurance Benefit Account, such Account will be exhausted during the fiscal year ending June 30, 2005, whereupon the City will be required to make direct payments. (Subject to approval of the City Council, it is anticipated that another \$25 million will be transferred from Basic Assets to the Insurance Benefit Account, which, it is estimated, will extend through June 30, 2006 the payment by CERS of healthcare benefits/premiums for eligible retired employees.) If the Insurance Benefit Account of CERS becomes exhausted, the general fund of the City may have to incur additional annual expenses related to post-retirement healthcare benefits.

In a report to the City Council Committee on Rules, Finance and Intergovernment Relations rendered February 5, 2003, the Administrator of CERS reported that based on very general estimates, and not on an actuarial analysis, the present value of the liability for such benefits for current active employees and existing retirees in the retirement plan was in the neighborhood of an amount of which could be between \$600 million and \$1.1 billion (or \$468 million to \$858 million for the general fund which is calculated based on a 78% pro rata share attributable to the general fund and is derived from a three-year average of the general fund's portion of total employer contribution amounts for fiscal years 2000, 2001, and 2002); and, unless included in an actuarially computed contribution or unless earnings from CERS were sufficient to create ongoing excess earnings, any future responsibility of the City would have to be funded from other sources. The Administrator's report indicates that the current method will almost certainly require a change in the benefits or funding from sources other than CERS and its reserves in the not too distant future.

Currently, there is no accounting rule that requires governmental agencies, such as the City, to account for post-retirement healthcare benefits as it accounts for vested pension benefits. A recent exposure draft by the Governmental Accounting Standards Board, which would have required such accounting, is being revised and is expected that a new such exposure draft will be published sometime in the calendar year 2004, and may be formally considered as early as July, 2004.

Litigation Relating to the Retirement System

General. In January 2003, a putative class action complaint (*Gleason v. San Diego City Employees' Retirement System, et al.*) was filed in the San Diego Superior Court against the City and CERS. A class has not yet been certified. The complaint alleges that from the fiscal year ended June 30, 1997 to the present, the City has not contributed to CERS the annual amount required by certain provisions of the San Diego City Charter and the San Diego Municipal Code. Instead, the plaintiffs allege that the City has been contributing an annual amount to CERS that is based on the 1996 Arrangement and the 2002 Agreement. Plaintiffs further allege that as a result of these violations, and the breaches of duty of the Board, as of the date the complaint was filed, CERS was less than 68% funded and the UAAL was \$720 million. (According to the CERS annual actuarial valuation, the funded ratio as of June 30, 2002 was 77.3%.) As to the City, the plaintiffs seek (a) a judicial declaration that the City has violated the City Charter and Municipal

Code provisions, and (b) a judicial declaration as to the appropriate remedies for the City's alleged violation of the City Charter and the Municipal Code.

The plaintiffs allege that the City is obligated to make additional contributions to CERS on two bases. First, the plaintiffs allege that the City has failed to comply with a provision of the City Charter that requires the City to contribute to CERS an amount substantially equal to the amounts that employees contribute to CERS (this basis is referred to herein as the "substantially equal basis"). The plaintiffs allege that the difference between the amount of total employee contributions between fiscal years 1997 and 2002 and the amount of contributions by the City during the same period were not substantially equal. The City disputes the plaintiffs' calculations and maintains that the amount of its contributions between fiscal years 1997 and 2002 is substantially equal to the amount of employee contributions during the same period. Second, the plaintiffs allege that the City Charter and the Municipal Code require the City to contribute to CERS in respect to members a percentage of earnable compensation as determined by the CERS's actuary pursuant to the annual actuarial valuation (this basis is referred to herein as the "actuary basis"). In a separate lawsuit (*Gleason v. San Diego City Employees' Retirement System*), the plaintiff is attempting to invalidate the 2002 Agreement between the City and CERS based on certain conflict of interest allegations concerning certain Board members. The City contends that its contracts with CERS are lawful and binding contracts.

Impact on the General Fund. Based on the plaintiffs' theories and arguments, with which the City disagrees, the City's maximum aggregate general fund exposure through June 30, 2002 under either of the plaintiffs' theories could be in excess of \$70 million. An adverse determination in this litigation may also expose the City to liability with respect to fiscal year 2003, and may cause the City to incur additional expenses in fiscal year 2004 and beyond. If the plaintiffs succeed on either of their theories, then the maximum amount including lost interest earnings, the general fund of the City could be ordered to pay for the fiscal year 2003 is estimated to be approximately \$17 million, and for the fiscal year 2004 is estimated to be approximately \$47 million which includes estimated lost interest earnings calculated at 8% per annum. Accordingly, compliance with any such order could have an adverse effect on the City's general fund.

PART II

2002 FINANCIAL STATEMENTS ERRORS

In September 2003, the City Auditor and Comptroller (the “City Auditor”) and Caporicci & Larson, the outside auditor (the “Outside Auditor”) of the Comprehensive Annual Financial Report of the City (the “CAFR”) discovered that certain errors existed in the CAFR for the fiscal year ended June 30, 2002 (the “2002 CAFR”). The discovered errors were primarily limited to the footnotes to the 2002 CAFR. The 2002 CAFR was audited by Calderon, Jaham & Osborn (“CJ&O”), to which the Outside Auditor is the successor firm. Upon such discovery, the City Auditor and the Outside Auditor undertook a variety of activities, which continued into December 2003.

The City Auditor’s activities were as follows: (1) confirmed footnote information to supporting sources and source documentation including outside third party sources; (2) compared various footnote disclosures for conformance to generally accepted accounting principles in the United States (“GAAP”); (3) compared footnotes in separate financial statements to footnotes in the combined all-funds financial statements to ascertain consistency in numbers or narratives; (4) recalculated the totals of all numerical columns within footnotes; (5) traced and reconciled footnote information to other portions of the 2002 CAFR if applicable; and (6) reviewed the footnotes to determine if any could be enhanced for additional clarity in the subsequent year’s financial statements. This process was separately undertaken by each of the Accounting Division and the Audit Division.

The Outside Auditor undertook the following activities: (1) the audit team which audited the 2002 CAFR compared the 2002 CAFR (including both the financial statements themselves and the footnotes thereto) to the audit working papers that were prepared in connection with the 2002 CAFR; (2) the Engagement Partner and the Senior Partner of the Outside Auditor reviewed the 2002 CAFR (including both the financial statements themselves and the footnotes thereto) for technical compliance with the requirements of GAAP, which includes relevant Governmental Accounting Standards Board (“GASB”) pronouncements by comparing the 2002 CAFR to a technical compliance checklist recommended by the Government Finance Officers Association; (3) the Outside Auditor had a technical Quality Control Review of the 2002 CAFR performed by their independent Quality Control Reviewer who is a certified public accountant; and (4) the Outside Auditor met with members of the Accounting Division and the Audit Division of the City Auditor’s Office to compare results of the City Auditor’s and the Outside Auditor’s reviews of the 2002 CAFR and assisted the City Auditor in preparing a comprehensive list of the errors in the 2002 CAFR. All of the activities of the City and the Outside Auditor were substantially completed in December 2003.

The review processes undertaken did not constitute a re-audit or re-issuance of either the footnotes or of any other part of the 2002 CAFR, and therefore would not necessarily have brought to light any errors that such an re-audit or re-issuance may have uncovered. The review process of the Outside Auditor included both the financial statements themselves and the footnotes thereto; and the review process of the City Auditor did not extend beyond the footnotes of the 2002 CAFR to the actual financial statements, as such, except as indicated above. It is the

opinion of the City Auditor and the Outside Auditor that, in accordance with accounting and auditing professional guidelines, discovered errors related primarily to footnotes, and were not material either individually or in the aggregate in the context of the 2002 CAFR taken as a whole. Neither the City Auditor nor the Outside Auditor extended this review to any financial statements of the City for years prior to the fiscal year ended June 30, 2002.

Among the errors and correctible statements discovered by the City Auditor and the Outside Auditor in the 2002 CAFR were the following:

1. In Note 5 of Notes to the 2002 CAFR (Governmental Activities of Long-Term Debt), there were miscellaneous errors in stated interest rates and maturities on various bonds which did not affect the actual financial statements, as such. There were also miscellaneous errors in interest payable on bonds and notes payable resulting in a net overstatement of prospective interest ranging from an understatement of approximately \$211,000 per year to an overstatement of approximately \$1,582,000 per year for a total net overstatement of approximately \$26,229,000, primarily the future accreting value on capital appreciation bonds of the City's redevelopment agency. This did not affect the actual financial statements, as such. However, there were also errors in prospective bond principal payable in Note 5 of which approximately \$2,615,000 was the already accrued (accreted) value on such capital appreciation bonds, which affected the following financial statements in the 2002 CAFR: (Statement of Net Assets – Governmental Activities; Statement of Activities – Governmental Activities; the Reconciliation to Net Assets at the bottom of the Governmental Funds – Balance Sheet; and the Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund Balances of Governmental Funds to the Statement of Activities) in that it understated a category of liabilities and expenses therein and overstated net assets by an equal amount.

2. In Note 6 of Notes to the 2002 Financial Statements (Business Type Activity Long-Term Debt), miscellaneous errors were found, which were primarily in stated interest rates and maturity dates. This did not affect the actual financial statements, as such. In addition, the amortization of discounts and premiums on bonds issued, in the aggregate net amount of \$19,232,000, was not reflected in Note 6. There were corresponding misclassifications of a like amount in certain categories of assets and liabilities in the following financial statements in the 2002 CAFR (Statement of Net Assets – Business Type Activities; Statement of Net Assets – Proprietary Funds). These misclassifications offset each other resulting in no change in total net assets, and therefore, did not have an impact on the financial statements, as such.

3. In Note 10 of Notes to the 2002 Financial Statements (Lease Commitments – Operating Leases), the total amount payable on operating leases between June 30, 2003 and June 30, 2027 was stated to be \$13.7 million, whereas the correct amounts ranged from approximately \$3 million to approximately \$10 million per year higher for a total of \$127.2 million (of which approximately \$72,069,000 represented amounts payable on operating leases for which the general fund is obligated). This did not affect the actual financial statements, as such.

4. In addition, there were a variety of corrections to Note 12 of Notes to the 2002 CAFR (Pension Plans—Deferred Benefit Plan) (the “Note”). The discussion in this item 4 and item 7 relates to the City Employees' Retirement System (“CERS”) as a whole and reflects

pension matters for governmental activities (of which the general fund is a component) and business-type activities collectively.

a. The Note indicated, under subparagraphs c (Funding Policy) and d (Annual Required Contributions) that the City's unfunded actuarially accrued liability ("UAAL") to CERS was being amortized at a percentage of payroll over a period of 30 years with 19 years remaining. In addition, the City reported a net pension obligation ("NPO") as the difference between the actual contributions to the pension plan (pursuant to the 1996 arrangement) and the required amount. The NPO is derived by first amortizing the UAAL over a number of years to establish an annual actuarially required contribution ("ARC"). However, the Note did not indicate that in calculating the ARC the UAAL was being amortized using a running 40-year period, rather than a 30-year fixed period with 19 years remaining. While utilizing such a running 40-year period is permissible under generally accepted accounting principles for reporting an NPO liability it results in an NPO less than would have been reported had the 30 years fixed/19 years remaining amortization method been used. This did not affect the financial statements, as such.

b. In subparagraph c of the Note (Funding Policy), it was indicated that (a) as a consequence of utilizing the "Corridor" funding method in accordance with the 1996 arrangement, which was not a funding method formally sanctioned by GASB for financial reporting purposes, the City was required to report a liability of \$39.2 million more than had been paid by the City (as an NPO) even though the shortfall was funded in a reserve, and (b) the actuary believed that the Corridor funding method was an excellent method for the City and superior to one of the GASB acceptable methods of funding. The subparagraph did not make clear that the reserve was, in fact, maintained by CERS, not the City. The reserve was eliminated by CERS during the year ended June 30, 2003, and the elimination of the reserve neither increased nor decreased CERS actuarial assets. While the actuary statements regarding the belief of the actuary and its efforts to obtain an endorsement by the GASB for using such method were correct in 1997, these statements were no longer correct at the time the 2002 CAFR were issued. This did not affect the actual financial statements, as such.

Further, while subparagraph c specified the total contributions made during the year, it did not, as required by GAAP relating to accounting for pensions by state and local government employers, show tables of the City's varying contribution rates expressed as percentages of active payroll which range from a low of 8.56% to 52.23% for general members and a low of 18.91% to a high of 21.54% for safety members. This did not affect the actual financial statements, as such.

c. In subparagraph d of the Note (Annual Required Contribution), there were a variety of miscellaneous errors: Among them, the date of June 30, 1996, as the actuarial valuation used to determine the City's annual required contributions should have been June 30, 2001, and the inflation rate assumption should have been 4.25% rather than 4.5% as stated in the subparagraph. This did not affect the actual financial statements, as such.

d. In subparagraph e of the Note (Three-Year Trend Analysis), the Annual Pension Cost amounts in the table for the years ended 6/30/00 and 6/30/01 were erroneously

stated, as were the percentage being contributed and the resulting NPO; the NPO recorded in the table for the year ended 6/30/00, was approximately \$700,000 understated and the amount for the year ended 6/30/01, was approximately \$1.7 million understated. The same numerical errors occurred in subparagraph f of the Note (Net Pension Obligation – Three Year Trend Analysis) in the table. These errors also resulted in the understatement of a category of expenses and a category of liabilities by \$1.7 million in total, of which approximately \$1.4 million is in each of the following financial statements in the 2002 CAFR that present financial data in which governmental activities, including the general fund, are components: (1) Statement of Net Assets; (2) Statement of Activities; (3) the Reconciliation to Net Assets at the bottom of the Governmental Funds – Balance Sheet; and (4) Reconciliation of the Statement of Revenues, Expenditure; and Changes in Fund Balances of Governmental Funds to the Statement of Activities. The remaining amount was excluded from comparable business-type funds.

e. A 2002 agreement between CERS and the City relating to, among other things, City pension plan contribution funding requirements, to be effective July 1, 2003, which agreement had been approved before the time of the issuance of the 2002 CAFR by both the City and CERS, was not mentioned in the footnotes to the 2002 Financial Statements as a subsequent event. This agreement superceded the 1996 arrangement referred to in 4.b above. (See “Part I — Pension Plan” for information regarding the 1996 arrangement and the 2002 agreement.) This did not affect the actual financial statements, as such.

5. In Note 17 of Notes to Financial Statements (Commitments), the amount of a revolving line of credit guarantee of which the San Diego Housing Commission, a discretely presented component unit in the 2002 CAFR, guarantees 10%, was understated by approximately \$3.5 million; the sewer utility construction plans cost estimates were understated by approximately \$1 million; and the water utility construction plan cost estimates were understated by approximately \$1.6 million and its contractual commitments were understated by approximately \$4.2 million. This did not affect the actual financial statements, as such.

6. In Note 22 of Notes to Financial Statements (Restatement of Beginning Balances), in the table, the various balances, adjustments and restated balances for the Sewer Utility Fund were omitted. The restated balance as of June 30, 2001, for such enterprise fund was approximately \$1.66 million. This did not affect the actual financial statements, as such.

7. An unaudited required table of supplemental information relating to pension plan funding levels was included in the 2002 CAFR (following the footnotes thereto) for each of the fiscal years ended June 30, 1996 through 2001, and included the funded ratio, the UAAL, and the ratio of the UAAL to the covered payroll. This table was prepared including pension data regarding the San Diego Unified Port District, which should have been excluded. As a result, the funded ratio, UAAL, and the ratio of the UAAL to the covered payroll were each misstated. These errors did not affect the financial statements, as such. If corrected, as of June 30, 2000 and 2001 (the last two fiscal years presented), such table of supplemental information would have reflected a UAAL, the funded ratio, and the ratio of the UAAL to the covered payroll as follows (as compared to the numbers as published) (dollars in thousands):

<u>Fiscal Year</u> <u>Ended</u>	<u>UAAL</u>		<u>Funded Ratio</u>		<u>Ratio of UAAL to</u> <u>Covered Payroll⁽¹⁾</u>	
	<u>As</u> <u>Published</u>	<u>If</u> <u>Corrected</u>	<u>As</u> <u>Published</u>	<u>If</u> <u>Corrected</u>	<u>As</u> <u>Published</u>	<u>If</u> <u>Corrected</u>
<u>June 30,</u> 2000	\$32,936	\$68,959	98.75%	97.3%	6.87%	15.4%
2001	\$261,741	\$283,893	91.07%	89.9%	50.50%	58.9%

⁽¹⁾ The higher the ratio of the UAAL to the covered payroll, the greater the economic burden to the City.

No Reissuance; Future Procedures. The City Auditor and the Outside Auditor are of the opinion that, based upon the activities undertaken by each of them with respect to the 2002 CAFR, as described above, and in accordance with accounting and auditing professional guidelines, the errors that were discovered, primarily relating to footnotes, were not material either individually or in the aggregate in the context of the 2002 CAFR taken as a whole, and therefore the City Auditor has elected not to reissue 2002 CAFR. Further, the Outside Auditor, as the successor to CJ&O, has advised the City Auditor that the City may continue to rely on the CJ&O audit report dated November 27, 2002 related to the 2002 CAFR as well as the letter dated the same date from CJ&O to the City Auditor related to the City's internal accounting controls. To the extent that the errors in the 2002 CAFR would have had an effect upon the audited financial statements of the City as of June 30, 2003 (the "2003 Statements"), the necessary corrections were made in the course of the preparation of such 2003 Statements.

As a consequence of the discovery of errors, the City Auditor has implemented the following additional procedures relative to the review process: (1) the establishment and maintenance of a centralized control point and repository for the preparation, review, cross checking of source documentation and source approvals for all footnotes; (2) the requiring of formal consents and approvals by appropriate departments or third parties of all applicable footnotes, and the overall acknowledgment and approval of the obtaining of all such consents and approvals; (3) mandatory cross-checking between separate financial statements and the combined all-funds financial statements; and (4) the reviewing of each of the steps described above by the Audit Division. The Outside Auditor likewise has implemented the following additional audit process procedures with respect to City financial statements: (1) cross-checking of all source documentation provided by the City for reasonableness and appropriateness; (2) requiring written communication by the City for any known material or immaterial errors or misstatements; (3) enhanced documentation of audit progress meetings conducted with key City staff; (4) enhanced communication and cross-checking of information relating to subsequent events, commitments and contingencies and litigation with the offices of the City Auditor and City Attorney; (5) enhanced cross-checking of separate fund and related-entity financial statements to the City's financial statements; (6) a person independent from the audit team for the City will review these financial statements for technical compliance with the requirements of GASB by comparing the financial statements against a technical compliance checklist recommended by the Government Finance Officers Association; and (7) the Director of Accounting and Auditing will review these financial statements for technical compliance with GASB requirements.